

***Riba* and Recognition: Religion, Finance and Multiculturalism**

Ibrahim Abraham

Monash University

Abstract

This article utilises the contemporary political theory of Nancy Fraser to explore the seemingly disparate issues of religious diversity and financial regulation in multicultural late capitalism, focusing on Islamic finance. In recent decades, Islamic finance has expanded into an almost trillion dollar global industry based around the rejection of *riba*, an Arabic word meaning usury. Whilst the growth of Islamic finance has been staggering, there has been little political or sociological analysis undertaken. This paper argues that Islamic finance challenges not only conventional financial wisdom and regulations, but raises numerous issues about religious identity and relationship between religion, politics and the economy. Analysing the development, principles and practices of Islamic finance, this paper argues that the seemingly staid field of financial regulation is actually a field wherein the politics of religious identity is very strong and wherein complex issues of cultural recognition, economic redistribution and political representation have emerged.

Introduction

This paper examines the intersections between religious ethics, cultural politics and financial practice, focusing on the development of Islamic banking and finance in the context of multiculturalism. Although Islamic finance is attracting increasing interest inside and outside the Muslim majority world, analysis of the principles, practices and potentials of the industry has largely been limited to financial practitioners and scholars, lawyers, and Islamic scholars, typically those working within Islamic jurisprudence (*fiqh*). The broader fields of religion studies and the sociology of religion have rather neglected this area. This is understandable, however. The areas that the study of Islamic finance touches upon, such as financial regulation, banking practice and taxation law, are not particularly sexy. Not even in the midst of the largest financial crisis since the Great Depression. Equally, since the political analysis of Islam in countries such as Australia has largely been given over to the study of terrorism, there has been little to excite most scholars of religion in the study of Islamic collateralised debt obligations or Islamic accounting practices.

But the neglect of this area is something of a shame. As this paper will argue, Islamic finance – as the most prominent element of the broader field of Islamic economics – is, in fact, full of the sort of juicy issues that scholars of religion like to get their teeth into. Some of the issues that this paper will touch upon in relation to Islamic finance are the relationship between religion and the state, the legal accommodation of religious difference, the mobilisation of religious political identity, comparative religious ethics and the relationship between religion and capitalism. In order to present a political analysis of this relationship between religion and finance, I am going to be using the heuristic schema developed by Nancy Fraser that analyses justice according to three criteria: cultural recognition, economic redistribution and

political representation. I will be arguing that despite developing and promoting various instruments of economic redistribution, Islamic finance also promotes cultural recognition. When we look to issues of political representation, however, we will clearly see some of the problems with Islamic financial practice and principle.

Accordingly, after glossing the history of Islamic finance and explaining its basic principles, I will introduce some common Islamic financial products that put the principles into practice. I will then introduce Fraser's 'recognition, redistribution and representation' schema, making a necessary correction along the way. Having offered an overview of Islamic financial principle and practice and Fraser's political theory, I will then analyse Islamic finance according to the Fraser's schema, beginning with issues of cultural recognition in Islamic finance, then instruments of redistribution in Islamic finance, and concluding with a discussion of the broader issues of political representation in Islamic finance.

The Development of Islamic Finance

The most important historical and ideological point to understand is that Islamic finance is a part of the economic philosophy of *Islamism*. The use of the term is still in some dispute, but a good working definition is that 'Islamism' refers to a variety of political discourses wherein the solutions to social problems are rooted or expressed in the history, philosophy and language of Islam. Accordingly, Islamism is rather diverse and has its own versions of left and right. Islamic finance emerged as a subset of Islamic economics within the broader rise of Islamist political philosophy in the post-World War II period (El-Gamal 2003: 122-3). The general argument was that the Islamic state and society advocated by the Islamic neo-revivalists needed its own unique and intrinsically Islamic economic system rooted in Islamic economic teachings.¹

The early 1960s saw two significant developments. The first experiments in Islamic banking were developed at this time, in Malaysia in the form of a fund to assist those going on the *Hajj* pilgrimage to Mecca, and in form of a bank developed in the town of Mit Ghamr in Egypt, based on the European savings banks models. Notably this bank did not identify as 'Islamic' to the German government that put up the initial capital, nor to Nasser's secular authoritarian state, which it ran afoul of anyway (Kahf 2004: 29-30; Soliman 2004). Ironically, the Mit Ghamr bank would probably not be identifiable as an Islamic bank today, according to norms as they have developed that I will discuss below. The even more significant development was the literature produced on Islamic economics in Pakistan in the 1960s that laid out the framework for Islamic banking (El Ashker and Wilson 2006: 366-7). The most significant of these early publications was Muhammad Siddiqui's *Banking Without Interest* (1969). Pakistan would later attempt to fully 'Islamise' its banking system in 1979 (Warde 2004: 39) and the country has long been a focal point of Islamic economic thought, with many of the most significant Islamic economic and financial scholars and activists emerging in Pakistan at this time.

Despite the early experiments in Egypt and Malaysia, Islamic banking and finance (and Islamic economics in general) was mostly theoretical, until 1973. It is important

¹ There are a lot of these. Wilson (1997: 117) calculates that over 1400 of the *Qur'an*'s 6226 verses are concerned with economics; that's roughly 22%, covering matters ranging from alms, to inheritance and commercial contracts. This is before one looks to the *hadith* (sayings and activities attributed to the Prophet Muhammad) and thousands of volumes on law, commerce and economics accumulated over centuries.

to note that in this era of decolonisation in the Muslim majority world, Islamism was vying with other anti-imperialist ideologies, notably various Marxisms and nationalisms – and for some time, running a distant third. The Gulf Arab royalty – especially the Saudis – were prominent in promoting this pan-Islamic ideology, particularly as an alternative to pan-Arab identity. Now, although the Arab loss in the 1973 Yom Kippur war was seen as partially redemptive after the disaster of the 1967 war, the war's wake would see the dominant ideology of the Arab world move from nationalism towards Islamism, and the political influence shift to the Gulf. Although it was a rather opportunistic stunt (notably on the part of non-Arab states) the 1973 oil embargo following the Yom Kippur War quadrupled the price of oil, leading to a massive accumulation of wealth into the so-called petro-states, especially Saudi Arabia (Warde 2000: 93, 2004: 39). This massive and sudden accumulation of capital made Islamic finance viable. Oil money in hand, 1974 saw the founding of the first self-identified Islamic financial institutions, the Jeddah-based Islamic Development Bank and the Dubai Islamic Bank. Islamic financial institutions opened in neighbouring countries in following years, including the Kuwait Finance House, the Bahrain Islamic Bank, the Qatar Islamic Bank and so on. Islamic financial institutions also wasted no time setting up in the tax havens of the world, in the Bahamas in 1977 and Luxembourg in 1978 (El Ashker and Wilson 2006: 336).

In more recent years, Islamic finance has expanded enormously (albeit from a tiny base) in the Muslim majority world and the non-Muslim majority world. Although most Muslim majority countries now have some form of Islamic banking or finance on offer, the bulk of the development in monetary terms has been in three places, the Persian Gulf, Malaysia and the non-Muslim majority world. The petro-states of the Persian Gulf have seen a renewed upsurge of extraordinary wealth given the current boom in oil prices, and flow-ons such as real estate and investments. Member states of the Gulf Cooperative Council (GCC)² have some 36% of the assets of self-identified Islamic financial institutions and Iran – which claims its entire banking system was Islamicised in 1983 (Warde 2004: 39) – has roughly 31% (Timewell and Divanna 2007). Secondly, Malaysia, which has some 12% of the assets of self-identified Islamic financial institutions has developed Kuala Lumpur and the tiny island tax haven of Labuan into significant centres of Islamic finance – the latter currently overseeing the training conventional tax havens in the properly *Islamic* approach to the pious art of tax avoidance (Baba 2007: 396-7). Finally, the non-Muslim majority world has developed as essential to Islamic finance. London, arguably the world centre of finance, has emerged as an integral Islamic investment hub, not least for the numerous conventional financial institutions like HSBC and ANZ who have developed Islamic 'windows', to offer Islamic financial products. Muslims in the so-called 'West' have also emerged as a market for Islamic finance and Australia has several Islamic financial institutions, primarily focussing on housing and personal finance and large-scale investment, most notably the Muslim Community Cooperative of Australia.

Given the global diversity and political complications, it can be a little hard to get an accurate account of the size of the Islamic financial industry. This is partly because of the constant expansion and contraction of the financial sector and the problem with assessing the value of certain Islamic financial products at any given time, but also because of the activist boosterism of much of the industry, and the problem of what

² Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. All but Oman have a significant presence in global Islamic finance.

actually counts as an Islamic financial institution or 'Islamic capital'. Nevertheless, a good estimate is that the Islamic financial sector has assets somewhere between \$US750 billion and \$US1 trillion (Hawser 2008). A little over \$US500 billion of this is held by self-identifying Islamic financial institutions (Timewell and Divanna 2007). To put things in perspective, this is less than 1% of the global financial sector, but it is roughly equivalent to the size of Australia's GDP. What gets the broader financial industry excited is the growth of the sector, especially at a time when the conventional financial sector is contracting. The Islamic financial sector has grown around 10-15% per annum in recent years and the increase of Islamic financial institution's assets in 2007 was 29.7%, with Islamic banks in the GCC reporting yearly profit increases between 60% and 80% (Timewell 2008). All of which sounds very impressive, but the question I haven't answered in this overview of the short history of Islamic finance, is precisely what it is that Islamic finance does, and why it even exists in the first place. So let me now look at the principles behind Islamic finance, and the financial products that have lead to this substantial economic growth.

Islamic Financial Principles

I am going to identify and discuss seven core values of Islamic finance. These are *halal* or permissible financial practices; the key differences with conventional finance that make the Islamic system identifiable, but also cause difficulties when Islamic finance seeks entry into conventional financial systems and their accompanying regulatory regimes. What we will see is that there is a good deal of dissent and controversy along the way, pointing to some of the complications that I will analyse in the second part of the paper.

1. Profit, loss and risk must be shared. This is the core *philosophy* of Islamic finance. If one does not take a risk, one does not deserve to make a profit. Conventional finance is seen to place too much of the burden of risk on the borrower making unjust relationships.

2. Avoid *riba*. *Riba* literally means the 'increase' or 'excess' above the principle on a loan. In use, however, it means *usury* since it is an inherently illegitimate practice, condemned at several points in the Qur'an, (e.g. 2:274-281). As well as creating unequal relationships, the argument is that insofar as profit from *riba* seeks to absolve the lender of all risk, it cuts God out of the equation, as it is God who may, or may not, grant success to a venture (3:130-132). Most significantly, within the practice and normative philosophy of Islamic finance, *riba* is interpreted as referring to *all* forms of interest. Amongst modernist Islamic scholars and contemporary theological and economic liberals, the interpretation of *riba* follows normative Christian revisions with usury referring merely to excessive or exploitative interest. This debate was ongoing at the time of the philosophical and practical development of Islamic finance but as far as the practice of Islamic finance today is concerned, the matter is settled (Kuran 2004; El-Gamal 2003: 109-111; Saeed 1996: 41-49, 119-125). If all interest were not condemned, the Islamic financial sector would arguably be unnecessary. The distinction that is made, then, is between usury and legitimate profit or compensation (Mews and Abraham 2007).

3. Do not invest in *haram* (forbidden) products. This relates to what sort of enterprises will be financed by Islamic capital and what it is permissible to invest in. Obviously things such as alcohol will be *haram* for Islamic investors; nor can one invest in *conventional* finance, since this would be self-defeating. Weapons are

considered *haram*, and many Islamic mutual funds will also avoid entertainment companies producing films or music. Highly leveraged companies are also avoided given that indebtedness is anathema to Islamic finance. The real problem is trying to avoid conventional finance in investing. As a result of an inability to totally separate from conventional finance, Islamic investments often profit inadvertently from *riba* or other *haram* activities. In this case, the wealth is ‘purified’ by donating these profits to charity.

4. Avoid investments that constitute *gharar*. Literally this is ‘hazard’, but it refers to transactions with too much uncertainty such that they have *excessive* risk and are therefore likened to gambling, which is condemned in the *Qur’an* (e.g. 50:90-91). Some highly risky (and potentially highly profitable) speculative financial products fall into this category. However, having *no* risk may be *haram*, as it may be considered *riba*. As Kahf (2002) explains, the difference between *riba* and *gharar* is that *riba* is prohibited because it contains no risk to the borrower and is thus an uneven contract, whilst *gharar* has too much risk as to be tantamount to gambling. The common element to both is that profit comes not through any effort of the lender; it is either a contract of chancing the unknown (*gharar*) or a sure thing (*riba*).

5. The financial institution must pay *zakat* – This is alms of 2.5% for relief of poverty. It is considered one of the five pillars of Islam.

6. Stay connected to the ‘real’ economy. Here we start to see some of the tensions between Islamic economic and financial theory, and Islamic financial practice. As Kahf (1999: 448) noted, Islamic finance always ties itself back in to what is called the ‘real’ economy; its concern is with material transactions of goods and services, and not with ‘parasitic’ financing, specifically, the secondary market and trading debt. However, the dominant practice and strategy of Islamic finance is to mirror conventional finance through the twinning of Islamic and conventional financial products, such that, as the influential Islamic economist M. Umer Chapra (2007: 326) explains ‘[t]here is hardly any significant need for financing that all the different modes of Islamic finance cannot together help satisfy.’ Accordingly, an Islamic secondary financial market is growing rapidly.

7. The financial institution should be overseen by *shari’a* (Islamic law) advisors. This is the key regulatory difference. Islamic financial institutions are overseen by experts in Islamic law who function like auditors, overseeing the operation of the business and ensuring practices are *halal*. More controversially, they also help design the products that they then judge the religious bona fides of (DeLorenzo and McMillan 2007). These regulators have been called “rock star *shari’a* scholars” by *Forbes* (Morais 2007) since there are only several dozen globally who have the necessary training in Islamic law, conventional law as well as business experience to advise the companies. Accordingly, these *sharia* scholars typically sit on numerous boards, earning multi-million dollar salaries, wielding a great deal of power (Kahf 2004; Ram 2008).

Having outlined the main distinguishing features of Islamic finance. I want to briefly look at some Islamic financial *products*; examples of how these principles are put into practice.

Islamic Financial Products

1. *Murabaha* contracts. These contracts are used in place of conventional loans in Islamic finance, but they are actually sales, no money is lent. The Islamic financial

institution will purchase the asset that the approved customer wishes to buy – typically a house – and then sells it to the customer at a mark-up. This is considered legitimate compensation for the risk it assumes, and allows a profit to the financier to continue offering the service. *Murabaha* contracts are an explicit compromise with conventional finance, designed to make Islamic finance competitive (Saeed 1996: 76-95). From an accounting point of view, a *murabaha* contract appears identical to a conventional loan, but they are *subjectively* different to those involved in the contract. Although totally *halal*, they are very low risk – even compared to conventional financial equivalents – and they dominate Islamic finance. In the UAE and Bahrain, for example, *murabaha* contracts account for 85% and 96% of Islamic financing (Saleem 2007: 42-44).

2. *Ijara* leases – This is a common cash-raising instrument, important since the prohibition on borrowing at interest restricts access to capital. They are mark-up or debt-based contracts, similar to *murabaha* sales. In an *ijara* contract, A. buys an asset and leases it to B. for fixed term and revenue.

3. *Musharaka* and *Murdaraba* loans. From the perspective of the founding philosophy of Islamic finance and economics, these products are the real deal. They are entrepreneurial profit and loss sharing vehicles; precisely what Islamic financial theory intends. To relate them to conventional finance, they function much like venture capital. However, they are much riskier than conventional loans, and far riskier again than the *very* low risk *murabaha* and *ijara* contracts. Accordingly, despite the good will of Islamic financial and economic activists, these products are not popular.

4. *Takaful* (Islamic insurance) This is administered as a co-operative pool of money and has its origins in the pooling of resources by traders in the *Hijaz* to provide compensation for caravans that went missing in the desert (El Ashker and Wilson 2006: 23-24). In 2007, the *takaful* industry was worth some \$2 billion, expected to double by 2010 (Ernst and Young 2008: 27).

5. *Qard hasan* loans. These are charitable loans where only the principal is repaid. They are only common in poor Muslim countries, such as Bangladesh or Jordan (Saleem 2007: 42-44) and within the tiny, but growing area of Islamic microfinance (e.g. Khan 2008).

6. Islamic equities. These are basically shares in enterprises considered *halal*. Special indexes have been developed to facilitate trade in Islamic equities, such as the Dow Jones Islamic Market Index (Siddiqui 2007). I mentioned the criteria for investment above, and because Islamic mutual funds and investors avoid highly leveraged companies, in troubled economic times – like today – they perform well. Islamic indexes have outperformed the market as a whole by 10% in the first quarter of 2008 (Aka 2008).

7. *Bai al dayn* ('sale of debt') / *sukuk* (Islamic bonds). These products were developed in the more liberal Malaysian Islamic financial industry in the 1980s and 1990s, and they have been controversial since the selling debt has been considered *haram*. Initially rejected in the Gulf, they very quickly changed their minds when they saw the potential (Trofimov 2007). A common type of debt-based security is a *sukuk murabaha*, a type of Islamic bond that involves the selling the right to receivables from Islamic mark-up sales and leases, which can then be traded. In 2007 this sector was worth over \$US17 billion, up from just \$US200 million in 2002 (Ernst and Young 2008: 19). Recently, one of the international *shari'a* boards ruled that up to 85% of *sukuk*, were *haram* (Gassner 2008; Hamoudi 2008) for flouting various

Islamic laws. This has dampened the market as the industry awaits a resolution on this issue.

Although these Islamic financial products indicate the way Islamic financial principles have developed in practice – in dialogue with conventional finance and global capitalism – the practical picture is still not complete. Since many of these products are quite abstract, I want to focus on Islamic home financing, one of the more common Islamic financial products in the non-Muslim majority world. It is here that we start to see more concretely some of the problems with Islamic finance. Although Islamic mortgages eschew interest, they are objectively almost identical to conventional mortgages insofar as the customer repays the principle of the loan and some excess. In order to be competitive, Islamic home financing typically follows the prevailing market interest rate, plus bank profit and administration costs which are higher than regular banks – not least because of the extra layer of (religious) regulation. The end result is that Islamic home financing costs more than conventional home financing. “The price for getting into heaven is about 50 basis points”, joked one mortgage banker (cited in Morais 2007). Wilson (2007: 434) notes that in 2005 an Islamic mortgage in the UK cost up to £100 per month (\$200) more than a conventional mortgage, thus limiting their appeal to the UK’s large Muslim working class – many of whom cannot afford to purchase property in the first place, let alone at inflated prices. A similar situation exists in Australia where some three quarters of Muslims are working class (Zwartz 2006). It is asking a lot of a working class family to assume up to an extra \$2,400 in mortgage repayments each year.

Generally speaking, then, for the average Muslim in a country like Australia, Islamic finance has no history of working as an agent of economic redistribution. What, then, is the function and appeal of Islamic finance? Unlike Hamoudi (2007) who insists that it is the industry’s rhetoric of social justice that underpins its growth, I am going to suggest that this is subordinated within the abiding and growing appeal of Islamic finance as an agent of cultural recognition.

Recognition, Redistribution, Representation.

At this point, having introduced the principles and practices of Islamic finance, I am going to bring in the work of North American political theorist Nancy Fraser (1995, 1998, 2007). Fraser’s work is a way of working through so-called identity politics that emerged on the left in the 1960s through second and third wave feminism and various civil rights movements. Fraser’s approach is excellent for weaving between complicated and multifarious issues of contemporary politics. In her heuristic, Fraser divides justice up into three areas: recognition, redistribution and representation. *Recognition* must be made of the cultural differences and value of different groups. In this case, Islamic finance recognises the beliefs of many Muslims that conventional finance is unethical and there is an alternative, *halal* way of banking and finance. Crucially, it also allows one to publicly perform their cultural identity. Accordingly, it would be an injustice to misrecognise this and assume that conventional finance is the only option. *Redistribution*, then, refers to addressing economic inequalities. For example, although Muslims are around 20% of the world’s population, they only contribute around 10% to the world’s GDP (Karasik, et al. 2007: 380); the Muslim-majority world includes some of the richest nations in the world, such as Qatar and Brunei, and the poorest, such as Niger and Bangladesh. If Muslims feel conventional finance is unethical – that it misrecognises their beliefs and identity – they may not

use it, and will be further economically marginalised. The final issue is *representation*, the administration of political subjects. If Australian Muslims want to develop an Islamic financial sector, who should they speak to, and moreover who should speak for them?

Now then, if we want to achieve justice according to this schema, there are various ways we can go about it. From the political left to the right: transformation and affirmation and, I will also add one more option Fraser does not talk about, reaction. Obviously this is antithetical to progressive politics, but its inclusion expands the analytical reach of Fraser's schema. Accordingly, a *transformative* approach would radically restructure economic and political systems; a revolutionary change from one mode of production to another, like capitalism to socialism. In our case the question is whether Islamic economics unique enough to constitute something transformative and distinct to capitalism (or socialism) as the leading theorists of Islamic finance and economics have always insisted (e.g. Chapra 1995; Khan 1995; Naqvi 1994).³ A transformative approach to cultural issues would see identity become a play of "multiple, debinarised, fluid, ever-shifting differences" (Fraser 1995: 84). Fraser's approach here is influenced by queer theory, which has not proved particularly influential within either Islamist or financial thought. Alternatively, we could opt for an *affirmative* approach to achieving justice, in the form of the liberal welfare state that will affirm the formal equality of citizens of the state, but not substantive equality. An affirmative approach would also allow a bureaucratic multiculturalism wherein private difference is largely paid for with public conformity. The third option I am adding here is *reaction*. This is a feature of populist and religious conservatisms. A reactionary approach focuses on injustice as the result of individual immorality more than social structures – a constant in various ideologies from neo-liberalism to conspiracy theories and religious revivals. One also sees a focus on social cohesion and conformity in the cultural sphere.

With these approaches in mind, I want to spend the remainder of the paper analysing some of the political issues and implications of Islamic finance. I will start with issues of Issues of cultural *recognition*, then instruments of economic *redistribution*, and finally I will conclude with a discussion of the complexities of political *representation*.

Issues of Cultural Recognition and Islamic Finance

1. The Misrecognition of Islamic finance. Islamic finance has often been viewed as backwards and irrational – especially in rejecting interest. This fails to recognise the nearly universal prohibition on usury from world religions, including Judaism, Christianity and Hinduism, and many philosophies from the Ancient Greeks to Marxism. Such statements assume that liberal capitalism is universal; that cultural difference and religious teaching is irrelevant and liberal capitalism is natural. Equally, Islamic finance has also been wrongly associated with Islamic terrorism, especially after 9/11 (Warde 2004). This, however, was rather predictable and part of the broader *misrecognition* of Islam post 9/11 wherein practically everything from the Muslim majority world was viewed suspiciously through the lens of a violent threat.

2. Pious Muslims' rejection of conventional finance. Some Muslims will not use conventional banks as they consider their interest-based activities *haram*. It is

³ This is not a question I have room to answer in this paper, but it is one I will be taking up elsewhere.

very hard to gauge how widespread this attitude is, however, but such an approach is quite rare. The more common approach is to purify perceived ill-gotten gains. However, since this issue functions as an identity-affirming political myth – constitutive of an ideological position and a rallying call – it functions well insofar as it would seem quite unjust to prevent Islamic finance developing where there is a significant Muslim population.

3. National/state regulatory issues. In order to make Islamic finance viable in conventional systems, legal and regulatory changes have to be made. One example is changes to stamp duty on mortgages. Since Islamic house financing involves two sales, first to the bank, then the customer, it attracts double tax. On this issue the UK leads the non-Muslim majority world. The UK's *Finance Act* (2003) eliminated double stamp-duty on Islamic home financing, opening up the market to Islamic and conventional providers (Housby 2006; Wilson 2007; Miller 2008). In Australia, the Victorian State government passed similar laws, but other states have not followed. This is where we see the limits of liberal multiculturalism and the notion of formal equality; such approaches fail to recognise more substantial cultural differences, and that in order to achieve substantive equality, sometimes the State has to treat citizens differently.

4. Global regulatory issues. These days, financial institutions are subject to international regulations as well as national and local ones. These standards – such as the Basel II accords – are based on conventional financial approaches. As such, they assume certain activities are normative, such as borrowing at interest from the State, which Islamic banks will not do (see generally Archer and Karim 2007). This goes to the question of post-nation/state or post-Westphalian politics (Fraser 2007), evincing a lack of global political representation, uniformity and identity for Islamic finance.

5. Secularising of economics/privatising of religion. Here we come to some more explicitly ideological issues. Hegemonic neo-liberal and neo-classical political and economic thought views economics as an amoral science from an epistemological perspective, and promoting the maximising one's utility within one's budgetary constraints from a policy perspective. As Al-Suwailem (2008: 15) argues, neo-classical economics presents "an inherently static and fixed world where agents are isolated calculators, rather than human beings with emotions, values, and social relations." There is no place here for religious sentiment or cultural difference. Equally, within liberal capitalism, religion is held to be a private matter that should not get in the way of making money. Accordingly, it is not just hegemonic economic attitudes that misrecognise Islamic finance, it has the dilemma of articulating its presence in a hostile political culture.

6. Misrecognition of non-Islamic finance and Muslim difference. Finally in this section, I want to look at the issue of (mis)recognition from the other side. Islamic finance is grounded in Islamist discourse, thus it presents itself as an ethically superior approach to various rivals – in the 1960s and 1970s, particularly to Soviet and 'Western' economies. Accordingly it equates Marxism with the Stalinism and state capitalist regimes of the former Soviet Union. Equally, it largely overlooks the voluminous work on business ethics within capitalism, in order to differentiate itself from the dominant economic ideology. Islamic finance is also guilty at times of ignoring the Jewish, Christian and especially the Ancient Greek origins of Islamic ethics, given that Islamism is often based on the myth of a *pure* Islam. Where it seeks to reach out to a broader consumer base, however, this sort of rhetoric is largely dropped. It is usually reserved for internal Muslim discussions. Hence another issue of misrecognition: Islamic finance projects a pan-Islamic identity and thus it does not

recognise differences adequately between Muslims, especially in terms of class. The development of Islamic home financing in the UK has done nothing to reduce working class Muslims' access to affordable housing, for example, although it has benefited wealthy Muslims (Housby 2006). It is a little like the old joke, "what is good for General Motors is good for America". In positing a cohesive, functionalist Islamic economy, Islamic economic and financial thought often displaces internal antagonism and in this sense it has a reactionary *internal* politics of recognition, whilst it projects an affirmative *outward* politics of recognition to the non-Muslim world.

Instruments of Redistribution in Islamic Finance

Most of the debate about Islamic finance in non-Muslim majority countries has focussed on these issues of recognition; *why are they doing this, and is it really worth changing the tax laws over?* However, part of the justification of Islamic finance is also that it works as an agent of economic justice; that it is a more equitable and efficient system. Sticking with Fraser's schema, I am now going to analyse some of the instruments of redistribution in Islamic finance.

1. Zakat. As I mentioned, this is alms of 2.5% on wealth above the poverty line for relief of poverty. Islamic financial institutions pay and administer this, part of the global privatisation of welfare. However, like regular taxes, avoidance is rampant. Sairally (2006) notes that Islamic financial institutions typically pay between 0 and 2% of profits to charity. Given this, *zakat* is best viewed as a *potential* tool of redistribution.

2. Reorientation of lending practices. Whilst conventional banks avoid risk in lending by favouring asset-rich borrowers, in theory, Islamic finance allows more access to capital by shouldering more of the risk and making finance available to more people. In reality, however, equity-based financing is rare and Islamic banks are often far more cautious about lending than conventional banks, setting higher standards for borrowers. Accordingly, given the attraction of debt-based financing, Khan (1995: 177-8) argues that a profit and loss sharing system is *only* a practical option for financial institutions if conventional lending practices are abolished – that is, within a transformed and wholly Islamic economy.

3. Purification of profits. Since profit from *haram* sources is redistributed to charity, this is another source of economic redistribution. Much like the other charitable approach, *zakat*, this is somewhere between an affirmative approach, and a personal morality-based reactionary approach. Interestingly, much cultural output in the Renaissance was financed through purified wealth (Mews and Abraham 2007). As I indicated, however, Islamic banks rarely pay out more than 2% of profits to charity (Sairally 2006) and are getting increasingly good at isolating 'Islamic capital' as the industry develops in size and sophistication.

4. Geographic and political redistribution. Since Islamic finance is based in the Middle East and South-East Asia, in theory, it will keep more money in developing economies and regions and the Muslim-majority world (see Wilson 2004). However, Islamic capital typically flows where conventional capital does, to the USA and Europe. Especially Gulf oil money, as part of the historical relationship between the ruling classes of the UK, the USA and Arab royalty. Indeed, Karasik, et al. (2007: 389) note that although London is an Islamic finance hub, most of its Islamic capital is Gulf Arab oil money, not the limited capital of the two million-or-so largely working

class British Muslims. This trend carries over to other European financial centres (Asokan 2008; Wilson 2007). Like everything about the Arab ruling class, we can thus file this under *reactionary* approaches.

5. Community empowerment. In places like Australia or the UK, Islamic finance can keep money in minority communities, empowering them and developing social capital and community resources. It promotes social wealth, not personal riches, Wilson (2003) suggests. There is certainly investment in human resources and education in Islamic finance and small Islamic financial institutions are enthusiastic sponsors of community causes and community entrepreneurship, similar to community-based credit unions.

6. Moralisation of economics. Since Islam does not separate economic activity and theory from faith and morals it offers a profoundly different philosophy from neo-classical economics and liberalism. This may be where a transformative approach to redistribution may come from, *if* we agree with the founding fathers of Islamic finance and economics that Islamic economics is something wholly distinct from capitalism. The other approaches are largely affirmative, as we have seen. One of the issues here is that the philosophy of Islamic economics is now quite separate from the reality of Islamic financial practice where the approach is to develop the Islamic analogue of every conventional financial product (e.g. Chapra 2007). Thus, the industry has both an affirmative approach to economic redistribution: everything that conventional finance does, Islamic finance can do, whilst strengthening the existing cultural identity of its clients.

The Politics of Representation in Islamic Finance

Finally, I want to turn to issues of political representation wherein we will see the acceleration of some of the tensions within the philosophy and practice, and the history and future development, of Islamic finance. Hanging over all these issues is, of course, the basic question of what, precisely, is ‘Islamic’ – and who decides? Can a few dozen millionaire male “rock star *shari’a* scholars” (Morais 2007) really represent the interests of over a billion, mostly impoverished, Muslims?

1. Democracy and Political Tensions. These are the most obvious issues when analysing the political representation and Islamic finance. Islamic finance is based in the Persian Gulf, particularly the member states of the GCC wherein feudal political relations sit alongside capitalist economic relations. The inequalities of the Muslim-majority world are most evident here, where endlessly exploitable and replaceable foreign workers from around the world work to build the world’s tallest building and indoor desert ski-resorts. Basic notions such as the rule of law are absent in these Kingdoms, hampering their economic development. With ongoing concerns about corruption and torture at the hands of authorities in Dubai (Kerr 2008), for example, as well as broader concerns about legal systems (Yusuf 2004), despite regional desires to develop financial centres these are unsustainable without transparent legal systems, which require accountable and democratic political systems. It is little wonder, then, that the Gulf uses the comparatively simple mark-up products over profit-and-loss sharing contracts which provoke far more legal complexity in the case of the breakdown of the partnership, far more than other jurisdictions (Yusuf 2004). It is also little wonder that the UK and potentially Australia are such attractive locations for Islamic capital, even with the legal complexities that the clash of jurisdictions and legal cultures can cause (e.g. Foster 2007).

In South East Asia, Islamic finance also raises issues of political representation, notably the rise of Islamic finance in Malaysia alongside the simultaneous rise of capitalist modernity and prosperity in the country and the rise in Islamic institutions, under the government of Mahathir (Eyre 1995; Fenton 2003). In fact, nowhere has Islamic finance prospered without the support of authoritarian or downright despotic political rulers. Islamic financial institutions enjoy government support in various ways; sometimes it has the outright prohibition on conventional banking or rival banks, at other times its more familiar State guarantees of assets. The irony is that the same feudal and non-transparent nature of governments that leads them to offer such largess to Islamic financial institutions also leads to searches for alternate centres of Islamic capital.

2. Multiculturalism and Islamic Finance. For their part, centres of Islamic capital in the non-Muslim world such as London and rivals such as Paris betray their own underlying approach to political representation and accountability by showing a distinct bias for Gulf-based big ticket financing above the interests of their local, largely working class Muslim populations, where the development of international merchant banking is well ahead of retail banking (Wilson 2007; Asokan 2008). At the same time, the development of hubs such as London could be seen as the commodification of Islamic ethics, within the broader approach of liberal multiculturalism to “promote any aspect of cultural difference, which can be turned into a distinctive product or selling proposition” (Housby 2006: 29). This is similar to Fish’s (2001) critique of liberalism’s ‘boutique multiculturalism’ wherein minor cultural differences are tolerated and exploited, whilst at the same time foreclosing on any more substantive differences.

Thus, one could also ask whether the development of Islamic finance in countries like Australia and the UK perpetuates the reification of cultural difference. One of the key problems with the bureaucratic liberal multiculturalism in countries like Australia is the tendency to ossify and reify cultural difference down to what Jameson (2000: 67) calls ‘anthropological tics and oddities’. In our multicultural comedy of manners, Muslims may merely become those we do not offer credit cards just as Jews become those we do not wish a Merry Christmas. In a diverse society, an essential question is whether cultural differences – religious or otherwise – can contribute to a society that is necessarily greater than the sum of its parts and is still capable of reinventing itself (see McLennan 2008).

Conclusion

One of the real questions running through this paper, then, is whether it is possible to think beyond liberal capitalism. This is a fundamental question of Islamic finance; is it offering anything different to conventional capitalism, or simply capitalism with a pious face? In other words, is there anything that Islamic financial ethics offers to the rest of the economy and society, or does it merely reproduce and translate the norms of capitalism into a particular vernacular? According to its principles, founded on the *Qur’an*, *hadith* and centuries of Islamic legal and economic thought, it seems to offer a complex and coherent philosophy of finance. Equally, it has developed a variety of financial products that can be integrated with conventional legal and financial systems, as well as offering a different subject approach to commercial life and banking. However, as we’ve seen, there are a number of tensions running through Islamic finance. It is rooted in the politically and culturally reactionary discourse of Islamism.

This rhetoric influences its presentation and utility within the Muslim community – the development of a strong and (partially) separatist Islamic identity grounded in religious prohibitions. At the same time, it presents itself to the financial and political systems of the non-Muslim majority world as largely interchangeable with conventional financial capitalism. The fundamental contradiction of Islamic finance then is that it seeks to be as professionally proximate as possible to conventional financial practice, whilst at the same time maintaining its religious objection to the very existence of the system it seeks to replicate. Precisely how this contradiction will be resolved - or whether it even *can* be resolved – is not clear, not least because Islamic finance is growing and developing at such a pace. Accordingly, it is not easy to say whether the current and future shape of Islamic finance is transformative, affirmative or reactionary.

References

- Aka, Jahangir
2008 Shariah Investing: Beating the Credit Crunch. June. SEI Investments, London.
- Al-Suwailem, Sami
2008 *Islamic Economics in a Complex World: Explorations in Agent-based Simulation*. Islamic Development Bank, Jeddah.
- Archer, Simon and Rifaat Ahmed Abdel Karim (eds)
2007 *Islamic Finance: The Regulatory Challenge*. John Wiley and Sons Asia, Singapore.
- Asokan, Shyamantha
2008 French Aiming for Paris to be Islamic Finance Centre. *Financial Times* (London), May 14: 24.
- Baba, Ricardo
2007 Islamic Financial Centres. In *Handbook of Islamic Banking*, edited by M. Kabir Hassan and Mervyn Lewis, pp.384-400. Edward Elgar, Cheltenham, UK.
- Chapra, M. Umer
1995 *Islam and the Economic Challenge*. Leicester: The Islamic Foundation.
2007 Challenges Facing the Islamic Financial Industry. In *Handbook of Islamic Banking*, edited by M. Kabir Hassan and Mervyn Lewis, pp. 325-357. Edward Elgar, Cheltenham, UK.
- DeLorenzo, Yusuf Talal and Michael J. T. McMillan
2007 Law and Islamic Finance: An Interactive Analysis. In *Islamic Finance: The Regulatory Challenge*, edited by Simon Archer and Rifaat Ahmed Abdel Karim, pp. 132-197. John Wiley & Sons Asia, Singapore.
- El Ashker, Ahmed A. F. and Rodney Wilson
2006 *Islamic Economics: A Short History*. Brill, Leiden.
- El-Gamal, Mahmoud
2003 Interest and the paradox of contemporary Islamic law and finance. *Fordham International Law Journal* 23(1): 108-149.
- Ernst and Young
2008 *Ernst and Young Islamic Funds and Investments Report 2008*. Ernst and Young Islamic Finance Services Group, Manama, Bahrain.

- Eyre, Anne
 1995 Religion, Politics and Development in Malaysia. In *Religion and the Transformations of Capitalism*, edited by Richard H. Roberts, pp. 301-309. Routledge, London.
- Fenton, Steve
 2003 Malaysia and Capitalist Modernisation: Plural and Multicultural Models. *International Journal on Multicultural Societies* 5(2): 135-147.
- Fish, Stanley
 2001 *The Trouble with Principle*. Harvard University Press, Cambridge, MA.
- Foster, Nicholas
 2007 Islamic Finance Law as an Emergent Legal System. *Arab Law Quarterly* 21(1): 170-188.
- Fraser, Nancy
 1995 From Redistribution to Recognition? Dilemmas of Justice in a "Post-Socialist" Age. *New Left Review* 212: 68-93.
 1998 Social Justice in the Age of Identity Politics: Redistribution, Recognition and Participation. *The Tanner Lectures on Human Values* 19: 1-67.
 2007 Reframing Justice in a Globalising World. In *Recognition in Politics: Theory, Policy and Practice*, edited by Julie Connolly, Michael Leach and Lucas Walsh, pp. 16-36. Cambridge Scholars Press, Newcastle upon Tyne.
- Gassner, Michael
 2008 Revisiting Islamic Bonds – Are 85% of *Sukuk Haram*? *Business Islamica*, April, 22-24.
- Hamoudi, Haider Ala
 2007 Muhammad's Social Justice or Muslim Cant?: Langdellianism and the Failures of Islamic Finance. *Cornell International Law Journal* 40(1): 89-133.
 2008 Legal Lip Service. *Forbes*, April 21. Online: http://www.forbes.com/2008/04/21/islamic-religious-banking-islamic-finance-cx_hh_islamicfinance08_0421spirit.html accessed June 23, 2008.
- Hawser, Anita.
 2008 Sharing In Risk And Reward. *Global Finance*, June, 39-41.
- Housby, Elaine
 2006 Islamic Home Loans in Britain. *ISIM Review* 17: 28-29.
- Jameson, Fredric
 2000 Globalization and political strategy. *New Left Review (Second Series)* 4: 49-68.
- Kahf, Monzer
 1999 Islamic banking at the threshold of the third millennium. *Thunderbird International Business Review* 41(4/5): 445-460.
 2002 Comment. In *Islamic Banking and Finance: New Perspectives on Profit-Sharing and Risk*, edited by Munawar Iqbal and David T. Llewellyn, pp. 31-36. Edward Elgar, Cheltenham, UK.
 2004 Islamic Banks: The Rise of a New Power Alliance of Wealth and *Shari'a* Scholarship. In *The Politics of Islamic Finance*, edited by Clement M. Henry and Rodney Wilson, pp. 17-36. Edinburgh University Press, Edinburgh.

- Kerr, Simeon
2008 Detained Banker ‘Tortured’ in Dubai. *Financial Times* (London), June 10: 7.
- Khan, M. Fahim
1995 *Essays in Islamic Economics*. Leicester: The Islamic Foundation.
- Khan, Ajaz Ahmad
2008 *Islamic Microfinance: Theory, Policy and Practice*. Birmingham: Islamic Relief Worldwide.
- Karasik, Theodore, et al.
2007 Islamic Finance in a Global Context: Opportunities and Challenges. *Chicago Journal of International Law* 7(2): 379-95.
- Kuran, Timur
2004 *Islam and Mammon: The Economic Predicaments of Islamism*. Princeton University Press, Princeton, NJ.
- McLennan, Gregor
2008 Progressive pluralism? *Critical Review of International Social and Political Philosophy* 11(1): 89-105.
- Mews, Constant and Ibrahim Abraham
2007 Usury and Just Compensation: Religious and Financial Ethics in Historical Perspective. *Journal of Business Ethics* 72(1): 1-15.
- Miller, Neil
2008 English Law Already Makes Provision for Sharia Councils. *The Lawyer*, February 18: 6.
- Morais, Richard C.
2007 Don’t Call it Interest. *Forbes*, July 23. Online: <http://www.forbes.com/business/forbes/2007/0723/122.html> accessed June 23, 2008.
- Naqvi, Syed Nawab Haider
1994 *Islam, Economics and Society*. Kegan Paul. London.
- Ram, Vidya
2008 The Enforcers. *Forbes*, April 21. Online: http://www.forbes.com/2008/04/21/sharia-compliance-law-islamic-finance-islamicfinance08-cx_vr_0421compliance.html accessed June 23, 2008.
- Saeed, Abdullah
1996 *Islamic Banking and Interest: A Study of the Prohibition of Riba and its Contemporary Interpretation*. Brill, Leiden.
- Sairally, Salma
2006 Evaluating the ‘Social Responsibility’ of Islamic Finance. Paper presented at the 6th Conference on Islamic Economics. Hilton Hotel, Jakarta. November 21-24.
- Saleem, Shahid
2007 International Islamic Banking: A Research Paper. New York Law School Research Paper 07-05.
- Siddiqui, Muhammad N.
1969 *Banking Without Interest*. The Islamic Foundation, Leicester.
- Siddiqui, Rushdi
2007 *Shari’ah Compliance, Performance, and Conversion: The Case of the Dow Jones Islamic Market Index*. *Chicago Journal of International Law* 7(2): 495-520.

Soliman, Samer.

2004. The Rise and Decline of the Islamic Banking Model in Egypt. In *The Politics of Islamic Finance*, edited by Clement M. Henry and Rodney Wilson, pp. 265-85. Edinburgh University Press, Edinburgh.

Timewell, Stephen and Joe DiVanna

- 2007 Top 500 Islamic Institutions. *The Banker*, November 5. Online: http://www.thebanker.com/news/fullstory.php/aid/5331/TOP_500_Islamic_Institutions.html accessed June 23, 2008.

Timewell, Stephen

- 2008 Virtual Concept to Critical Mass. *The Banker*, March 4. Online: http://www.thebanker.com/news/fullstory.php/aid/5656/Virtual_concept_to_critical_mass.html accessed June 23, 2008.

Trofimov, Yaroslav

- 2007 Borrowed Ideas: Malaysia Transforms Rules For Finance Under Islam. *The Wall Street Journal*, April 4: A1.

Warde, Ibrahim

- 2000 *Islamic Finance in the Global Economy*. Edinburgh University Press, Edinburgh.
- 2004 Global Politics, Islamic Finance and Islamist Politics Before and After 11 September 2001. In *The Politics of Islamic Finance*, edited by Clement M. Henry and Rodney Wilson, pp. 37-62. Edinburgh University Press, Edinburgh.

Wilson, Rodney

- 1997 *Economics, Ethics and Religion: Jewish, Christian and Muslim Economic Thought*. New York University Press, New York.
- 2003 The Implications of Globalisation for Islamic Finance. Paper presented at the 5th International Conference on Islamic Economics, Bahrain Ritz Carlton, October 7-9.
- 2004 Capital Flight Through Islamic Managed Funds. In *The Politics of Islamic Finance*, edited by Clement M. Henry and Rodney Wilson, pp. 129-152. Edinburgh University Press, Edinburgh.
- 2007 Islamic Banking in the West. In *Handbook of Islamic Banking*, edited by M. Kabir Hassan and Mervyn Lewis, pp. 419-432. Edward Elgar, Cheltenham, UK.

Yusuf, Tariq M.

- 2004 The *Murabaha* Syndrome in Islamic Finance: Laws, Institutions and Policies. In *The Politics of Islamic Finance*, edited by Clement M. Henry and Rodney Wilson, pp. 63-80. Edinburgh University Press, Edinburgh.

Zwartz, Barney

- 2006 So Who Really Does Run Islam? *The Age* (Melbourne), November 4: A5.